



CITY OF DURHAM | NORTH CAROLINA

DATE: November 20, 2014

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda S. Page, Deputy City Manager

FROM: Bertha T. Johnson, Director of Budget and Management Services
David Boyd, Finance Director

RE: **FY 2014-15 First Quarter Financial Report**

Executive Summary

The administration is pleased to present the First Quarter Financial Report for FY 2014-15. This report is based on three months of financial information. The administration presents each quarterly report to City Council at a regularly scheduled work session. A presentation of this report will be provided to the City Council at the November 20th work session. The report will also be published on the City's website at: <http://durhamnc.gov/ich/as/bms/Pages/Quarterly-Reports.aspx>

Attached Exhibits

A number of charts and tables are attached to this document to provide the City Council with additional information on the City's financial status in key areas. Below is an overview of the attachments and highlights of activity.

Exhibits 1 & 1A: General and Debt Services Funds Budget-to-Actual Summary and Year End Projections by Department: This provides a summary of budget and actual general fund revenues and expenditures for all departments through the first quarter of FY2015. It is currently projected that all departments will end the year within budget. The full year estimate indicates that departments will spend \$1.4M less than budgeted, primarily driven by savings in personnel costs (\$1.2M). We will continue to monitor revenue collections and expenditures and, if necessary, make targeted reductions as required to meet revenue projections.

Property Taxes: Collections are at \$11,349,269 compared to \$10,611,045 for the same period in FY2014 (positive variance of \$738,224 or 7%). It is projected that property taxes will come in just slightly below budget (-275K). The FY2015 budget projected a 99.0% collection rate based on the collections at the 3rd Quarter FY2014. The final collection at June 30, 2014 matched the projection at 99%. The 2014 tax bills have been mailed. Property tax payments are to be paid in full by January 5th, 2015.

Sales Taxes: In previous years an estimate was provided for sales tax collections for the 1st quarter. Due to the uncertainty of the collections, this practice has been discontinued therefore \$0 is shown for sales tax for the first quarter FY2015. An update will be provided during the presentation at the work session.

Other Revenues: Utility franchise taxes are up slightly by \$81,579 (2.56%) from \$3,271,422 compared to \$3,189,843 for the same period last fiscal year. Licenses are down by \$484,079 (18.30%) from \$2,160,659 compared to \$2,644,738 for the same period last fiscal year. The

reduction in license revenues can be attributed to the City no longer being permitted to collect privilege license revenues from out-of-town businesses. An allowance for this was made in the development of the FY2014-15 Budget by budgeting \$129,000 from one-time fund balance. Permits are down slightly \$52,794 (3.75%), from \$1,355,760 compared to \$1,408,554 for the same period last fiscal year. Occupancy tax collections are flat, up \$7,547 (1.51%) from \$508,105 compared to \$500,558 for the same period last fiscal year. Powell Bill revenues are up slightly by \$51,145 (1.69%), \$3,076,816 compared to \$3,025,671 for the same period last fiscal year. Charges for services are up by \$585,442 (47.61%) from \$1,815,104 compared to \$1,229,662 for the same period last fiscal year. Investment income has been moved to the Capital Improvement Plan (CIP) as a revenue source for projects.

The following chart shows a comparison of major revenues for Quarter 1 in 2014 and 2015. As shown, total major revenues year-to-date for FY2015 are \$23,537,135 compared to \$22,610,071 for FY2014, a positive difference of \$927,064 (4.10%).

Major Revenues

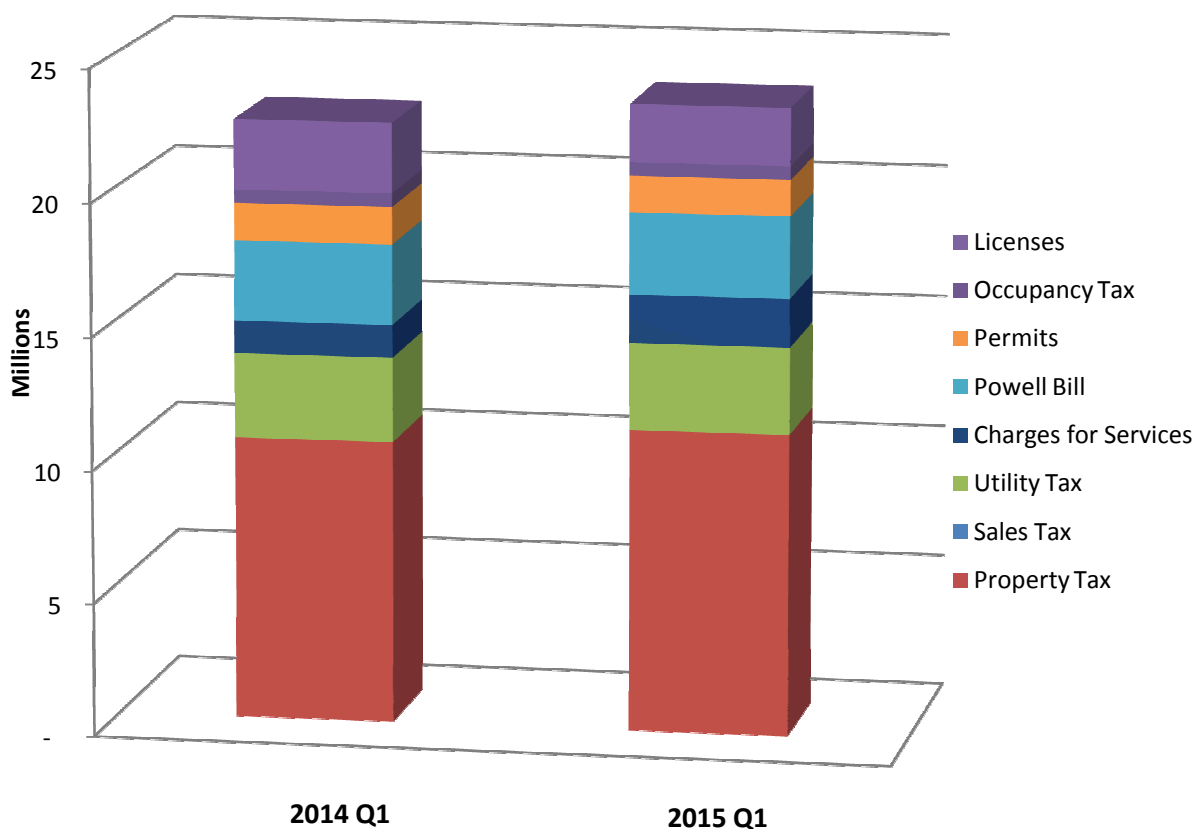


Exhibit 2: Enterprise Fund Budget-to-Actual

This provides a summary of budgeted and actual revenues and expenditures in each enterprise fund. The results for each major fund are summarized below.

Water & Sewer Operating Fund

For the first quarter of FY2015, results show that operating revenues were nearly 30% of the budgeted operating revenue while operating expenses were 18% of the budgeted operating expenses. Compared to the first quarter of FY2014, this is slightly more favorable as operating revenues were at 27% while operating expenses were at 20%. Of note is that billed consumption for the first quarter was 8% higher than the same time during FY2014.

During the previous five years, average consumption for the first quarter has been 29% of the annual total, primarily due to irrigation and cooling tower usage. At this time revenue is anticipated to be equal to budget at year end, barring any unusual weather patterns. The total revenues for the quarter exceed the total expenses by \$14.8M; however, surpluses early in the year are offset by end of the year debt service payments of \$11.3M, indirect costs charges of \$6M, and transfer of \$21.5M to capital projects.

Operating expenditures are slightly less than anticipated at 18.2% of the total FY2015 budget, but are expected to be close to budget by June due to equipment and services anticipated to be delivered later in the year. Operating expenditures are about \$525,000 below FY2014 as the AMR project was completed in early FY2015 and certain machinery was purchased in the first quarter of FY 2014. Cost for water and wastewater treatment chemicals and utilities decreased, however price fluctuations may impact future quarters in either direction. Total expenditures are 11.8% of budget due to debt service and interdepartmental transfers which will occur later in the fiscal year.

The Water and Sewer Fund is a self-sufficient enterprise fund deriving all revenues from charges to customers and receives no tax support. All excess funds of revenues over operating and debt expenditures are dedicated to capital projects. The fund has consistently finished each fiscal year in a strong positive financial position.

The rate increases over the past seven years have stabilized the water and sewer fund and therefore ensured compliance with revenue bond covenants. Rate increases in each of the past three years have been less than initially projected due to favorable developments with the Capital Improvement Program (CIP). The general economic condition slowing the construction industry resulted in bids for infrastructure projects coming in significantly lower than budgeted, and the staff has carefully reallocated funding for capital projects to defer where appropriate to responsibly minimize expenditures.

As evidenced by the FY2015-2020 Capital Improvement Program (CIP) budget, both water and wastewater capital needs are substantial with over \$21 million approved in the current year CIP. The anticipated funding from future revenue bonds requires the ability to maintain a healthy current revenue stream for the long term. The Department budgeted a \$21.5M transfer to the CIP in FY2014-2015 and will continue its efforts to maximize revenues and ensure rate-payers' dollars are expended efficiently and effectively.

Water and Sewer Capital Facility Fee Fund

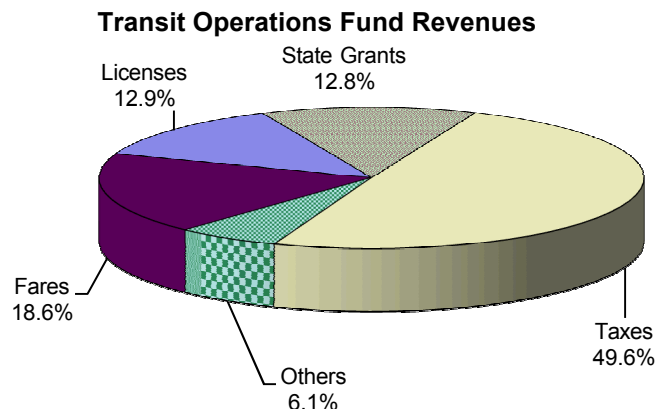
Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support capital improvements.

Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Any increase in these fees will help provide for future capital needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt covenants.

First quarter revenues are 32% of budget and nearly \$308,000 greater than the same prior year period. This is the third year of a significant year-over-year increase, indicating a positive current trend in local development and growing utility customer base. Expenditures consist solely of transfers to the Water and Sewer Construction Fund, and as such, are currently on pace to exceed the \$7.9M projected in the budget.

Transit Operations Fund

First quarter results project year-end revenues and expenses to be at budget. Future quarters will further refine projections as the first quarter historically has relatively little transit fund activity. Ridership numbers will continue to be monitored, but are essentially flat for fixed route, and up a modest 3% for paratransit.



The Transit Operations Fund receives a significant amount of support from property taxes (about 3.87 cents per \$100 on the tax rate). These account for 49.6% of budgeted fund revenues in the FY2014-15 adopted budget. State grants are another large funding source for the Transit Operations Fund. With fee increases last approved in FY2004, charges to system riders return about 18.6% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$5M estimated for FY2014-15, which are also used to support the DATA transit system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste fund is projected to receive less revenue than originally budgeted for FY2015. This is due to lower revenues from mixed solid waste fees as customers continue to send less solid waste through the transfer station. Some of the operating revenue shortfall will likely be made up because of the timing of solid waste fee revenues. The fee was repealed with the FY 15 budget, but about \$128,000.00 was credited to FY 15. The budget for FY 15 for this was zero. These first quarter receipts make the year to date numbers appear better than they actually are for budgeted revenues, as we do not expect significant further receipts of the fee.

The fund is projected to end under budget for expenditures which is primarily attributable to operational savings largely related to the reduction in mixed solid waste mentioned above. Overall, the fund is projected to have a deficit by year end of approximately \$61,105.

The Solid Waste Disposal Fund was budgeted to receive 31.7% of revenue through charges and other non-tax revenues. The remaining revenue is provided by transfers from the General Fund and Debt Service Fund.

Stormwater Management Fund

The Stormwater Management Fund provides for the management and maintenance of operational expenses of stormwater activities which include street cleaning. A transfer is also made from the operating fund to Stormwater Capital Improvement Program project funds for private property and watershed planning and design projects. The Stormwater fund is a self-sufficient enterprise fund and receives no tax support.

At the end of the first quarter, the Stormwater Fund has received 36.68% of projected operating revenues. The fund is showing an anticipated surplus of approximately \$327K due to lapsed salary and savings in the household hazardous waste disposal contract.

Parking Facilities Fund

At the end of the first quarter, the Parking Facilities Fund is projected to come in at budget for the fiscal year.

Ballpark Fund

The Ballpark Fund currently relies on the Debt Service Fund for 84% of the budgeted funding. In January 2014, all operations became the responsibility of the Durham Bulls under the new agreement. The remaining items include debt service payments, the collection of interest and the revenue sharing established in the most recent agreement. All items are projected at target.

DPAC Fund

This fund was established for the Durham Performing Arts Center. Beginning with the current fiscal year the former DPAC maintenance and repair fund were combined into the DPAC Fund. Current fund expenditures and revenues are anticipated to end the year at budget.

Exhibit 3: Special Revenue & Grant Funds

This provides a summary of spending in each of our major grant funded programs.

Exhibit 4: Investments

This provides a summary of the allocation of our investment portfolio as well as the investment earnings so far during the current fiscal year.

Exhibit 5: Risk

This provides a report of claims payments made to liability claimants in accordance with Council Resolution #8810.

Exhibit 6: Contracts

This provides a summary of the number and type of contracts that were authorized so far during the year.

Exhibit 7: Impact Fees

This table shows the amount of impact fee funds available by zone for streets, open space and parks. Project obligation by current ordinance is also shown. Revenues shown are actual revenues year-to-date.

Exhibit 8: Planned Debt Issuance

This report summarizes any actual debt issuance so far for the current fiscal year.

Exhibit 9: Donations Report

This report lists amounts donated to the City of Durham from various sources.

Exhibit 10: Assessment Collection Report

This report lists the status of the delinquent assessment accounts.

Exhibit 11: CIP Stoplight Report

This report summarizes the progress of all Council approved capital projects.